APPLICATION OF

VIRGINIA GAS DISTRIBUTION COMPANY **CASE NO. PUE990531**

For a general rate increase

REPORT OF MICHAEL D. THOMAS, HEARING EXAMINER

February 4, 2000

On August 25, 1999, Virginia Gas Distribution Company (the "Company") filed with the Clerk of the Commission an application for a general rate increase. In its application, the Company proposed to increase its rates to recover non-gas revenues of approximately $300,000.00. The Company intends to phase in the rate increase over a two-year period. During the first year, the Company proposes to recover one-half of its non-gas revenue requirement, or $150,000.00. At the start of the second year, the Company would phase in the remainder of its proposed rate increase. The Company also proposed revisions to the general terms and provisions of its tariff to reflect a purchased gas adjustment in its basic rate structure. In support of its application, the Company filed the testimony of Michael L. Edwards, president and chief executive officer; Robert B. Withrow, treasurer; Catharine M. Lacy, independent energy consultant; and William L. Clear, vice president and chief financial officer. Included with the application were Schedules 1-36 as required by the Commission's Rules Governing Utility Rate Increase Applications and Annual Informational Filings adopted in Case No. PUE850022.

On September 14, 1999, the Commission entered an Order for Notice and Hearing. In the order, the Commission suspended the Company's proposed rate increase for a period of 150 days, or through January 22, 2000; appointed a Hearing Examiner to hear the case; required the Commission's Staff to investigate the Company's application; scheduled a hearing on the application for February 2, 2000; and established procedural dates for the filing of pleadings, prepared testimony and exhibits, and the publication of notice.

There were no Notices of Protest or Protests filed by the dates set forth in the Commission's Order for Notice and Hearing. In addition, there were no written comments filed in opposition to the Company's proposed rate increase.

On December 22, 1999, the Staff prefiled the direct testimony of Richard W. Taylor, manager of audits; Farris M. Maddox, principal financial analyst; and John A. Stevens, utilities engineer. The Staff found the Company's proposed rate increase and its method of implementing the increase to be reasonable. The Staff further found the Company's proposed purchase gas adjustment to be consistent with the policy established by the Commission in Case No. PUE880031, Ex Parte, in the matter of establishing an investigation of gas purchasing, procurement practices, and gas cost recovery for Virginia gas utilities. (1988 S.C.C. Ann. Rep. 333). The Staff does not oppose the implementation of the Company's purchased gas adjustment.

On January 20, 2000, the Company filed a Motion to Implement Rates and Accept Bond. By Ruling dated January 21, 2000, the Company's Motion was granted and the Company was allowed to implement its proposed rates, subject to refund with interest, on and after January 23, 2000. The Company's bond to secure any refunds ordered by the Commission was accepted for filing.

The hearing on the application was convened on February 2, 2000. The Company appeared by its counsel JoAnne L. Nolte, Esquire. The Staff appeared by its counsel, Marta B. Curtis, Esquire. No public witnesses appeared at the hearing to comment on the Company's proposed rate increase and revision in its tariff. The Company's proof of public notice was received into the record as Exhibit A. Pursuant to the parties' Joint Stipulation, the prefiled testimony and exhibits of the Company and the Staff were accepted into the record as Exhibits MLE-1, RBW-2, CML-3, WLC-4, RWT-5, FMM-6, and JAS-7. The Joint Stipulation was accepted into the record as Exhibit JS-8, and is attached hereto. (Attachment A).

A transcript of the hearing is filed with this Report.

DISCUSSION

After considering the Company's and the Staff's prefiled testimony, as well as the Joint Stipulation filed by the parties, I find the proposed increase in rates set forth in the Joint Stipulation and Schedule A attached thereto, is reasonable and should be approved by the Commission. The proposed rates are not unjust, unreasonable, insufficient, or unjustly discriminatory or preferential, or otherwise in violation of the laws of this Commonwealth. *See*, Section 56-235 of the Code of Virginia.

I further find the tariff revisions set forth in the parties' Joint Stipulation are reasonable. In the long term, the purchased gas adjustment will benefit both the Company and its customers. During periods of rising gas prices, the Company will be able to recover its additional purchased gas costs, which will improve the financial stability of the Company. Conversely, during periods of decreasing gas prices, the Company's customers will realize the benefits of those reduced costs in the form of lower gas bills.

Accordingly, **I RECOMMEND** the Commission enter an order adopting the findings of this Report, approving the proposed revenue increase, rates and tariff revisions set forth in the Joint Stipulation and Schedule A attached thereto.

COMMENTS

The parties are advised that any comments (Section 12.1-31 of the Code of Virginia and Commission Rule 5:16(e)) to this Report must be filed with the Clerk of the Commission in writing, in an original and fifteen (15) copies, within fifteen (15) days from the date hereof. The mailing address to which any such filing must be sent is Document Control Center, P.O. Box 2118, Richmond, VA 23218. Any party filing such comments shall attach a certificate to the foot of such document certifying that copies have been mailed or delivered to all counsel of record and any such party not represented by counsel.

Michael D. Thomas
Hearing Examiner

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

APPLICATION OF

VIRGINIA GAS DISTRIBUTION COMPANY Case No. PUE990531

For a general rate increase

JOINT STIPULATION

Virginia Gas Distribution Company ("VGDC" or the "Company") and the Staff of the State Corporation Commission ("Staff"), by counsel, hereby stipulate as follows:

1. VGDC filed its current application on August 25, 1999, requesting a general increase in rates designed to recover an additional $300,000 in gross annual revenues phased in over a two year period based on results of the test year ended December 31, 1998. The proposed rate increase is not premised upon an authorized return on equity but on recovery of higher costs related to significant system expansion. The rates were placed in effect on an interim basis for service rendered on and after January 23, 2000.

2. The Company's application is supported by the prefiled testimony of witnesses Michael L. Edwards, Robert B. Withrow, Jr., Catherine M. Lacy, and William L. Clear, as well as completed Schedules 1-36 as required by the Commission's rules regarding utility rate increase applications and annual

informational filings ("Rules"). It is stipulated that the Company's application, prefiled testimony, and schedules may be accepted into the record without the witnesses present and without cross-examination.

3. On December 22, 1999, Staff submitted the prefiled testimony of witnesses Richard W. Taylor, Farris M. Maddox, and John A. Stevens. Staff's prefiled testimony recommends that VGDC be awarded the requested increase of $300,000 phased in over a period of two years (i.e., $150,000 for the current year) based on recovery of costs rather than return on equity. It is stipulated that the Staff's prefiled testimony may be accepted into the record without the witnesses present and without cross-examination.

4. For purposes of establishing the Company's rates in this proceeding, it is stipulated that the Staff's recommendations may be accepted as set forth in its prefiled testimony and as summarized on the attached Schedule A.

5. Based upon the foregoing stipulations, VGDC waives its right to file rebuttal testimony.

6. No other party has appeared in this proceeding.

7. This stipulation is not severable. In the event that the Commission determines not to accept and approve the stipulation in its entirety, the Participants respectfully request that the Commission issue an Interim Order remanding the

matter to the Hearing Examiner and providing the Participants the opportunity to attempt to reach a modified stipulation that addresses the Commission's concerns. If no such modified stipulation can be reached, the Participants, or any one of them may withdraw their support for this stipulation and proceed with the further hearing on any of the issues raised in this proceeding.

VGDC and the Staff respectfully submit this stipulation and request that it be accepted by the Commission.

IT IS SO STIPULATED

THE STAFF OF THE STATE
CORPORATION COMMISSION

By: ________________________
Counsel

Marta B. Curtis
Attorney
Allison L. Held
Attorney
Office of General Counsel
State Corporation Commission
P.O. Box 1197
Richmond, Virginia 23218
(804) 371-9671

VIRGINIA GAS DISTRIBUTION COMPANY

By: ____________________________
Counsel

JoAnne L. Nolte
PennStuart
P.O. Box 617
Richmond, Virginia 23218–0617
(804) 819-1770

CERTIFICATE

I hereby certify that a true copy of the foregoing was mailed or hand delivered to the Commission's Divisions of Economics and Finance, Energy Regulation, and Public Utility Accounting; JoAnne L. Nolte, Esquire, PennStuart, P.O. Box 617, Richmond, Virginia 23218–0617; and John F. Dudley, Senior Assistant Attorney General, Division of Consumer Counsel, Office of Attorney General, 900 East Main Street, Richmond, Virginia 23219.

SCHEDULE A

The Company accepts Staff's recommendations on the following issues:

I. Accounting Recommendations

1. Use of a test period ended December 31, 1998, as to rate base, revenues, and rate base sensitive items, is appropriate.
2. The Staff's accounting adjustments are appropriate and should be adopted.
3. The Company's revenues on a Virginia jurisdictional basis, after all adjustments, for the test period were $1,027,901.
4. The Company's total operating revenue deductions on a Virginia jurisdictional basis, after all adjustments, for the test period were $884,474.
5. The Company's operating income on a Virginia jurisdictional basis, after all adjustments, and adjusted operating income, after all adjustments, were $143,427 and $142,737, respectively.
6. The Company on a Virginia jurisdictional basis earned 2.28% on its rate base of $6,272,958, after all adjustments, and earned a –3.58% return on common equity, after all adjustments.

7. The Company accepts the following booking and accounting recommendations:

(i) The Company shall maintain sufficient records to track the accounting impact of capitalized interest items (e.g., plant in service, accumulated depreciation, construction work in progress ("CWIP"), and accumulated deferred income taxes) based on the approved ratemaking methodology.

(ii) The Company shall book construction projects as CWIP (or Account 107), Account 183, Account 426.5, or Account 101, and any related accumulated depreciation consistent with Staff's recommendations as detailed in its December 22, 1999, prefiled testimony. The Company shall also book office and equipment in the Grundy and Lebanon offices consistent with the methodology detailed in the above-referenced prefiled testimony.

(iii) The Company shall file the appropriate affiliate agreements for the allocation of general plant to all VGDC affiliates and for the transfer of office equipment from VGDC to Virginia Gas Propane.

(iv) The Company shall file an amended affiliate agreement denoting the time frame for the settlement of intercompany transactions and include a provision requiring interest payments on overdue affiliate payable balances.

(v) The Company shall file a depreciation study with its next rate application or within two years of the date of the Final Order in this proceeding, whichever is earlier.

(vi) All financial reports submitted to Staff or the Commission shall be on a Virginia jurisdictional ratemaking basis.

(vii) The Company requires $300,000 in additional gross annual revenues.

(viii) The Company should implement deferred gas accounting effective with the change in base rates to recognize differences between gas costs incurred and recovered.

II. Cost of Capital Recommendations

1. It is appropriate to defer consideration of an authorized return on equity until a future rate proceeding.

2. It is appropriate to use Virginia Gas Company's consolidated capital structure for VGDC based on the December 31, 1998, test period.
3. It is appropriate to reduce the face amount of long-term debt by the unamortized balance of issuance costs and losses on debt reacquired and refunded with new debt.

III. Jurisdictional Separation Study, Cost of Service Study, Revenue Apportionment, Rate Design, and Tariff Revision Recommendations.

1. Staff's jurisdictional separation study is a reasonable approach for allocating expenses, capital costs, and revenues among the Company's jurisdictional and non-jurisdictional or governmental customers.
2. In jurisdictional separation studies filed in future rate proceedings, the Company will use Staff's methodology for allocating the various different expense and rate base accounts.
3. Staff's cost of service study is a reasonable approach for separating costs among customer classes.
4. The Company will file a class cost of service study as part of its next application for an increase in

rates. In preparation for that filing, the Company will begin collecting and compiling peak day demand information.

5. The allocation of transmission and distribution mains and related investments should be based on non-coincident peak day.

6. The Company's apportionment of its revenue increase based on the percentage of current non-gas revenues for each customer class is appropriate in this proceeding.

7. The customer charges for Phase I and Phase II of the increase are as follows:

	Phase I	Phase II
Residential	$7.00	$8.00
Commercial	$28.00	$30.00
Industrial	$80.00	$85.00
Negotiated	$175.00	$200.00

   The remainder of the revenue increases apportioned to each customer class is to be distributed to the volumetric rate blocks equally over both phases of the increase.

8. If the Commission approves an increase that differs from the Company's requested increase, the final rate design for each class should reflect the same

percentage split between customer charges and volumetric rates as used in the Company's rate design. Final rates should be designed consistent with the Accounting Staff's customer growth and weather normalization adjustments if the Commission accepts such adjustments.

9. The Company's proposed PGA mechanism and changes in its tariff relative to such mechanism are appropriate.